

**ENDOWMENT FUND INVESTMENT BOARD  
MINUTES OF THE REGULAR BOARD MEETING  
May 21, 2003**

**BOARD MEMBERS PRESENT:**

Dr. Norman N. (Nick) Hallett  
R. John Taylor  
Thomas F. Kealey  
Representative William W. (Bill) Deal  
William D. Mitchell  
M. Dean Buffington  
Gavin M. Gee

**BOARD MEMBERS ABSENT:**

Senator Dean L. Cameron  
Parker G. Woodall

**STAFF:**

Matthew J. Haertzen  
Jennifer B. Outram-Dobler  
Connie Eshelman  
Andrew M. Potter  
Mary L. Livengood

**GUESTS:**

**RBC Dain Rauscher**

John Pickett

**Callan Associates**

Michael O'Leary  
Janet Becker-Wold

**State Insurance Fund**

James Alcorn

**Department of Administration**

Pam Ahrens

**PERSI**

Richelle Suguyami

**Oechsle International Advisors**

Peter Robson  
Peter Pavlina

**Marvin & Palmer**

Tim McAvoy  
Terry Mason

**Attorney General's Office**

Julie Weaver

Chairman Nick Hallett called the meeting to order at 8:31 AM and recognized that a quorum was present.

**APPROVAL OF MINUTES**

Motion by Mr. Taylor, second by Mr. Mitchell to approve the minutes of the February 27, 2003, Regular Board Meeting; the March 31, 2003, Executive Committee Meeting; and the April 8, 2003, Joint Board of Land Commissioners/Endowment Fund Investment Board as presented. The motion carried unanimously.

**ENDOWMENT FUND**

Mr. Haertzen discussed how the Executive Committee and staff selected the finalists for the new consultant. He stated there were 13 responses to the Request for Proposal and the list was narrowed down to two finalists.

**CONSULTANT FINALIST INTERVIEWS**

Michael J. O'Leary and Janet C. Becker-Wold represented Callan Associates in their quest to become the new EFIB consultant, and John Pickett represented RBC Dain Rauscher in their quest to remain the EFIB consultant. By general consensus the Board agreed to wait until after the Executive Session to make a decision on awarding a new consultant contract.

## **INTERNATIONAL GROWTH MANAGER INTERVIEWS**

Mr. Pickett of RBC Dain explained the search process. Thirteen firms were interviewed; the list was narrowed down to two international managers to appear before the Board. Peter Pavlina and Peter Robson represented Oeschle International Advisors; Tim McAvoy and Terry Mason represented Marvin & Palmer Associates, Inc. in their quest to become the new international growth manager. By general consensus the Board agreed to wait until after the Executive Session to make a decision on awarding a new international growth manager contract.

## **MID-CAP MANAGER SEARCH**

Mr. Haertzen discussed the process the Executive Committee used to select the new mid-cap managers. The managers selected were Systematic, Oppenheimer, and Artisan. The process of transition went smoothly.

## **ASSET ALLOCATION**

Mr. Haertzen gave a brief history of the asset allocation including where we were at the end of 2002, where we are today, and where we are headed. The fund has been over-weighted in small-cap investments so reallocation of funds from Strong Capital was used to fund the new mid-cap managers. With that reallocation, the fund is very close to the allocation goal. Mr. Haertzen would like to move to a goal of 20% invested in international investments. To fund the new international manager, he would reduce Lazard's share to 10% and use 10% for the new growth manager. Ms. Suguyami of PERSI stated that PERSI has between 20-25% in international investments. Mr. Taylor feels 15% in international investments is adequate. Motion by Representative Deal, second by Mr. Gee to approve the asset allocation of 20% in international investments and to accept the asset allocation formula as follows: 80% of the Equity portion in domestic equities—70% in large-cap, 20% in mid-cap, and 10% in small-cap—and 20% in international equities as outlined in the Board Packet. The motion carried unanimously.

## **RBC DAIN PERFORMANCE --John Pickett**

Mr. Pickett discussed the RBC Dain report. All equity markets were down; fixed income was up. Mr. Pickett predicts the market will stabilize in the next few months.

## **CASH FLOWS**

A mistake in 2001 assigned a greater loss to the Earnings Reserve and a lesser loss to the corpus. Staff has been working closely with the Controller's Office and with the auditor to make the proper adjustment. With the adjustment, the shortfall in July for Earnings Reserve distribution will be less than previously anticipated, but the shortfall in the corpus will be larger. The Department of Education has informed Idaho public school districts that the July endowment distribution will be less than anticipated. The shortfall will be about 8.5 million dollars for fiscal year 2003 and about 6 million dollars in July 2004 if the market remains flat. It was noted that the Board had previously recommended that the payout percent was too high. Mr. Haertzen will bring this issue to the August Board Meeting. Dr. Hallett suggested that the Board pursue building the earnings reserve by using a lower payout.

## **STAFF REPORTS**

Mr. Haertzen noted that the overall investment level has improved. He stated that we are preparing to transfer monies saved from the Operating Expense to the Capital Outlay Expense to purchase 3 computers this year instead of next year.

## **STATE INSURANCE FUND**

Performance Report (as included)

Mr. Haertzen reported that the State Insurance Fund performance for this quarter matched the custom benchmark.

## **JUDGES RETIREMENT SYSTEM**

Performance Report

Mr. Haertzen reported he held in-depth interviews with both managers earlier this year and discussed the situation with Corrie Keller of the Judges Retirement System. Mr. Haertzen will give a presentation at a meeting with the Judges on May 22, 2003. He will recommend termination of Tom Johnson, Inc. at that time and recommend that those monies be placed in index funds.

## **OTHER BUSINESS**

### **POLICIES AND PROCEDURES UPDATE**

Staff developed the following procedures and presented them to the board for approval: Audit Procedures, Cash Flows from Lands Procedure, Expense Procedure, General Ledger Procedure, Internal Staff Evaluation Procedure, and Internal Trading Procedure. Motion by Mr. Taylor, second by Representative Deal to adopt the procedures as presented. The motion carried unanimously.

### **DATE AND TIME FOR AUGUST WORK SESSION AND AUGUST BOARD MEETING**

Discussion was held regarding holding the work session for a full day prior to regular August board meeting. Mr. Taylor suggested that one-half day would be sufficient and suggested the work session start at 1:00 PM. Motion by Mr. Taylor, second by Representative Deal to hold the work session on August 20, 2003, starting at 1:00 PM. The motion carried unanimously. The regular board meeting will be August 21, 2003, at 8:30 AM.

Motion by Mr. Gee, second by Mr. Buffington to enter into Executive Session. The roll call vote was as follows:

|                     |     |
|---------------------|-----|
| Dean Buffington     | Aye |
| Gavin Gee           | Aye |
| Tom Kealey          | Aye |
| Bill Mitchell       | Aye |
| John Taylor         | Aye |
| Representative Deal | Aye |
| Nick Hallett        | Aye |

The motion carried unanimously.

### **Executive Session**

*Idaho Code*, Section 67-2345 authorizes the board to enter into executive session for the purpose of discussing possible legal actions (§67-2345 (1) (f) or personnel issues (§67-2345 (1) (b)). Any resulting action will take place when the board resolves back into regular session.

Motion by Representative Deal, second by Mr. Mitchell to award the consultant contract to RBC

Dain Rauscher. The motion carried unanimously. By general consensus, the board authorized the consultant and the Manager of Investments to decide upon the international manager.

### **ELECT NEW CHAIRMAN**

Dr. Hallett announced his retirement from the board effective immediately. Mr. Haertzen presented a plaque of appreciation to Dr. Hallett, and the board expressed appreciation for Dr. Hallett's service to the board.

Motion by Representative Deal, second by Mr. Gee to nominate Dean Buffington as the new chairman. Motion by Mr. Mitchell, second by Mr. Taylor that the nominations cease. The motion carried unanimously, and Mr. Buffington was declared elected as the new board chairman. Mr. Buffington's first action was to appoint Tom Kealey to the Executive Committee to fill that vacancy.

There being no further business, the meeting was adjourned at 12:48 PM.

MOTION: That the minutes of the February 27, 2003, Regular Board Meeting; the March 31, 2003, Executive Meeting; and the April 8, 2003, Joint Board of Land Commissioners/Endowment Fund Investment Board be approved as presented.

MOTION: To increase the asset allocation to 20% of the equity portion for international investments and accept the asset allocation formula as follows: 80% of the Equity portion in domestic equities—70% in large-cap, 20% in mid-cap, and 10% in small-cap—and 20% in international equities.

MOTION: To adopt the Audit Procedures, Cash Flows from Lands Procedure, Expense Procedure, General Ledger Procedure, Internal Staff Evaluation Procedure, and Internal Trading Procedure as presented.

MOTION: To enter into Executive Session.

MOTION: To award the consultant contract to RBC Dain Rauscher.

MOTION: To hold a work session on August 20, 2003, at 1:00 PM

MOTION: To nominate M. Dean Buffington as chairman of the board.

MOTION: That the nominations cease. Mr. Buffington was declared the new chairman.